



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

Driving Oklahoma

Transportation systems are a critical component of every economy, provide a major social function of the Gross Domestic Product (GDP) and are primary factors in quality of life. Likewise, Oklahoma's investments in transportation support and contribute to the state economy by improving and maintaining a critical infrastructure.

Regardless of how digitally connected and productive America is today and will become in the future, states, communities and major centers of commerce cannot exist in physical isolation. Rather, a symbiotic and personally interactive travel, supply

chain and trade relationship with each other and with other countries is necessary to remain productive and economically viable.

A strong, well-maintained and efficient local, state and national transportation network is the only publicly-accessible infrastructure that can facilitate this relationship. Transportation-based inputs contribute nine percent to the Gross Domestic Product, according to the Bureau of Transportation Statistics.

Good access to local and global markets allows businesses to lower transportation costs, which, in turn,

lowers production costs and costs to consumers. Travel supports the efficient conduct of commerce and stimulates the new ideas and the "business to business" and "business to consumer" interactions required for our economy to grow and prosper. American businesses must have the infrastructure needed to secure every competitive advantage in the global marketplace and to insure the long-term sustainability of the nation.

Adam Smith, considered the father of capitalism, believed that government had an important role to play by

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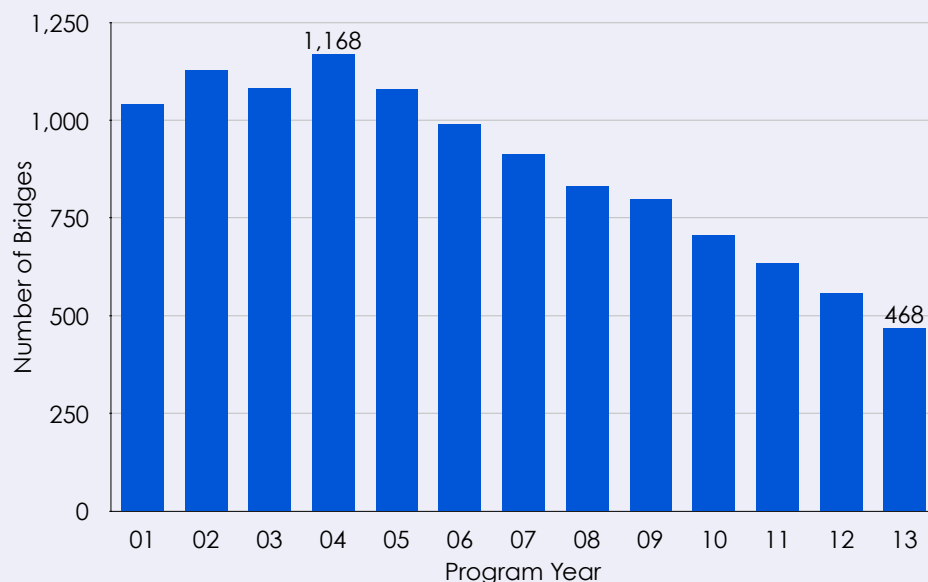
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Structurally Deficient Bridges in Oklahoma



Based on year of inspection.

Source: Oklahoma Department of Transportation



Secretary's Commentary

By Oklahoma Transportation Secretary Gary Ridley

The 21st Century Challenge

Our nation's world-class transportation system has played a central role in developing our country while improving the quality of life in our communities. Transportation unites us and certainly fuels and facilitates our economy by allowing goods, services and people to travel freely. Today, our citizens have the ability to personally travel in relative comfort and safety to most all areas of the continental United States. The transportation-based prosperity and progress to which we have become accustomed is primarily defined by the sacrifices made and the transportation system investments initiated not in recent history, but almost 60 years ago in the mid-twentieth century.

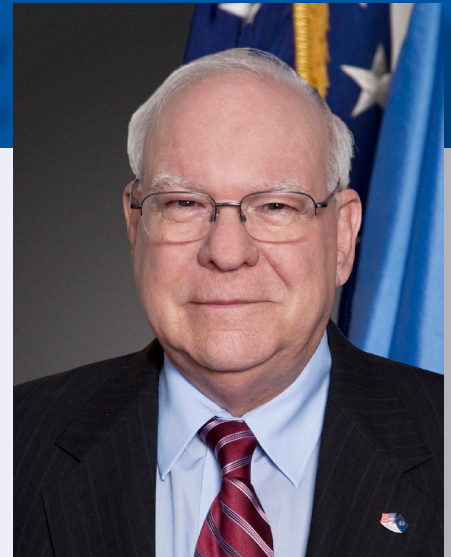
Despite the commitments and accomplishments of the past, the most recent report from the American Society of Civil Engineers (ASCE) grades our nation's current infrastructure overall as a "D+" and rates Oklahoma's roads and bridges as a "D." It is increasingly apparent that a growing rift is developing between the service level expectations of our population and the willingness to collectively identify ways to invest in improving the operational infrastructures of our country. It is very likely that our complacency is simply a reflection of a complete unawareness of the

critical infrastructure needs that exist along with a lack of understanding of the resources that will be necessary to sustain and reinvent our world-class status for future generations.

Governor Fallin, legislative leaders and policymakers have identified unique ways to provide dedicated and sustainable transportation funding in extremely difficult budgetary times.

“Our structurally deficient bridge numbers are steadily declining and we are implementing a variety of safety and operational improvements.”

These resources have improved Oklahoma's ability to invest in our critical infrastructure and are beginning to slowly transform a system that was in alarming disrepair an asset that is manageable. The results of these dedicated state-level resources are already beginning to have a noticeable effect.



Our structurally deficient bridge numbers are steadily declining and we are implementing a variety of safety and operational improvements on both our urban and rural highways and turnpikes. The long-term prognosis of our pavements is not showing dramatic improvement yet and it will require many years of sustained investment to make Oklahoma highways conditionally adequate and safe. While we are showing some measured progress on our own with the resources we have available, the states can only do so much.

At the federal level, there are critical decisions that must be made now that will begin to shape the type of transportation system that will serve us for the next 50 years. The antiquated volumetric gas and diesel tax support structure for the Highway Trust Fund served us well in the past. However, the Census Bureau expects the population of the

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Ridley

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United States to grow by 100 million through the year 2060 and USDOT projects that freight traffic is likely to double during that same period. The Highway Trust Fund simply will not generate the investment levels necessary to pay for the desperately needed transportation system improvements and expansions that are required to keep pace with

the demands of the future. Senator Inhofe and the Oklahoma Delegation are proponents of infrastructure investment, but it is critical that Congress seek out new revenue mechanisms to bolster national infrastructure investment levels needed to keep our country viable.

No magic bullet exists that can resolve the transportation system investment dilemma we face and the

many challenges that are ahead of us. Much like the 1950s, the solution will be predicated on clear communication of the issues, a bold, new vision, innovation, the support of the traveling public and many years of diligent focus and consistent state and federal investment. Only then will we achieve the type of multifaceted, high-capacity transportation system that will be necessary to support the United States in the future.

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providing public works such as the roads and bridges necessary to facilitate commerce.

In addition, Article 1, Section 8 of the United States Constitution recognizes the essential role of the federal government in “establishing post roads and regulating interstate commerce.” In this specific recognition, the founding fathers conveyed their understanding that connecting the country by establishing a transportation network to facilitate trade and travel was essential to the sustainability, productivity and economic success of the grand experiment.

Subsequently, on June 29, 1956, President Dwight Eisenhower signed the Federal-Aid Highway Act of 1956. The bill created a 41,000-mile “National System of Interstate and Defense Highways” that would, according to Eisenhower, eliminate unsafe roads, inefficient routes, traffic jams and

all of the other things that got in the way of “speedy, safe transcontinental travel.” The 1956 law declared that the construction of an elaborate expressway system was “essential to the national interest.”

Second only to the “post road and interstate commerce” provisions drafted into the Constitution, the Federal-Aid Highway Act represents the most significant contribution to the transportation system in Oklahoma and the United States.

The advent of the interstate era ushered in the opportunity to travel freely, safely and efficiently throughout the nation. This enhanced connectivity, increased access to goods and services, and heightened productivity levels. In turn, interstate highways became a direct catalyst for a large and lasting economic expansion. History shows the United States was only able to become a true world economic superpower after the initiation and substantial completion of the interstate system. Interstate highways greatly improved access to

regional and global markets, added significant traffic capacity and provided the American people and businesses with the competitive edge that propelled the country to elite status by the end of the 20th Century.

While the nation’s economy experienced a decline with the onset of the Great Recession beginning in 2006, a resurgence of commerce in the country is now well underway. According to Congressional Budget Office (CBO) projections, the demand for goods and services, commonly referred to as the “actual Gross Domestic Product” (actual GDP), was in the range of \$700 billion (approximately four percent) less than what the economy could have supplied (potential GDP) in the second quarter of 2014.

Some policy and economic experts refer to this continuing output gap as the legacy of the Great Recession. The country continues to lag behind in potential outputs as indicated by comparatively high unemployment and

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Transportation

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less than optimal productive capacity in business and industry. However, the CBO anticipates that the “actual to potential GDP”

comparative gap will begin to close over the next several years as the U.S. economy continues to recover.

A primary indicator of the beginnings of a period of economic growth is an increase in heavy truck

traffic volumes. Trucking is a good barometer for the overall U.S. economy because more than two-thirds of American manufactured and retail goods are carried by over-the-road freight transportation.

Specific to Oklahoma, heavy truck traffic trends are easily obtained from information provided by the Oklahoma Turnpike Authority (OTA). Due to the nature of its business model, OTA can accurately classify the vehicular traffic on its network based on the tolling patterns. This information generally reflects and validates trucking trends being experienced across the highway system. OTA data show that while heavy truck traffic dropped sharply during the last recession, it has grown steadily every year since.

Understanding that a world-class transportation system is the cornerstone of a vibrant economy and a leading factor in growing and attracting new

business, Oklahoma policymakers have made transportation infrastructure investment a priority of state government. After 20 years of stagnant state transportation funding levels, Oklahoma’s highways were becoming

an unmanageable liability with no viable solution.

Beginning in 2006, consistent and incrementally increasing state funding has allowed the Department of Transportation to develop and carry out a strategy focused on deficient bridge infrastructure on

the highway system.

Why focus on bridge infrastructure? In

times of less than adequate investment, bridges develop conditional deficiencies and can manifest as a serious weak link in the transportation network. Structurally deficient bridges can have an immediate and direct detrimental effect on the safety of the traveling public and the movement of goods and services.

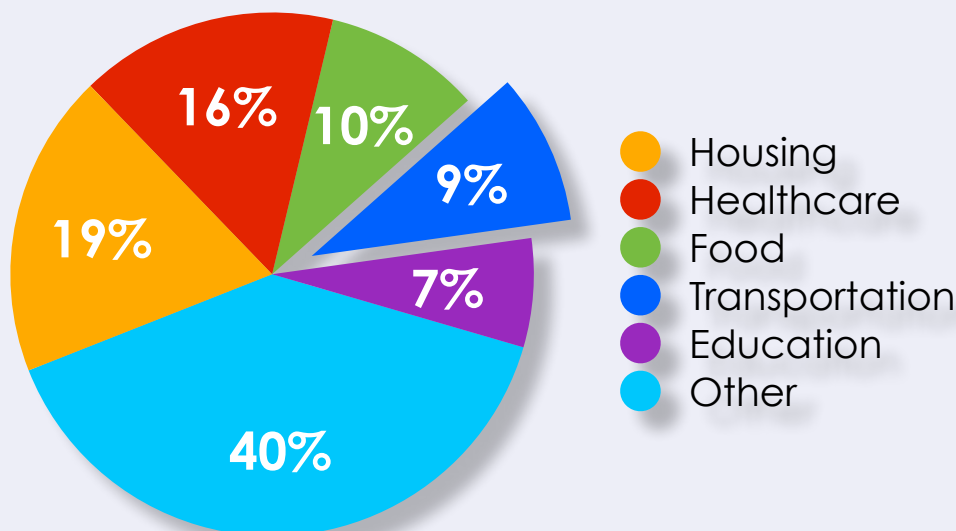
For example, a structurally deficient bridge that can no longer carry a legally-loaded truck must be posted with a load limit to remain in service or be closed to reduce the risk of a catastrophic failure. Such a closure or load posting then becomes a restriction to commerce, limiting economic expansion opportunities and driving up transportation costs and travel times.

Increased transportation funding has also allowed ODOT to focus strategic pavement, operational and critically important safety improvements on all

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“Oklahoma’s transportation system is improving due to a vision founded on providing opportunity and sustaining long-term and diversified economic growth.”

Transportation’s Share of Gross Domestic Product



Source: Bureau of Transportation Statistics



Transportation

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classifications of roads and highways in all regions of the state. Safety is of paramount concern as Oklahoma has averaged almost 700 traffic fatalities per year since 2007.

Considering traffic safety alone and according to a 2011 national report entitled “Crashes vs. Congestion – What’s the Cost to Society” as prepared for AAA by Cambridge Systematics, the overall cost of vehicular crashes, estimated at \$299.5 billion, equates to an annual per person cost of \$1,522. The cost of crashes are based on the Federal Highway Administration’s comprehensive costs for traffic fatalities and injuries that assign a dollar value to a variety of components, including medical and emergency services, lost earnings and household production, property damage, and lost quality of life.

A transportation system allowed to fall into disrepair will quickly become a primary economic constraint rather than a catalyst for economic growth. As the nation’s economy struggles to expand and demands on the transportation system increase, it is becoming apparent that the transportation system will not be able to meet the challenge and again be the economic catalyst as it was in the 20th Century.

Unfortunately, the marvel of transportation infrastructure represented by the U.S. interstate system as completed has been forgotten and much of the network is now conditionally deficient, in dire need of major operational improvements or warrants massive capacity expansions to alleviate congestion.

Other state and local transportation infrastructures are equally unprepared to meet the challenges being presented by a 21st Century economy predicated on

just-in-time delivery, rolling warehouses and supply chains, and the immediate gratification demands of today’s consumer.

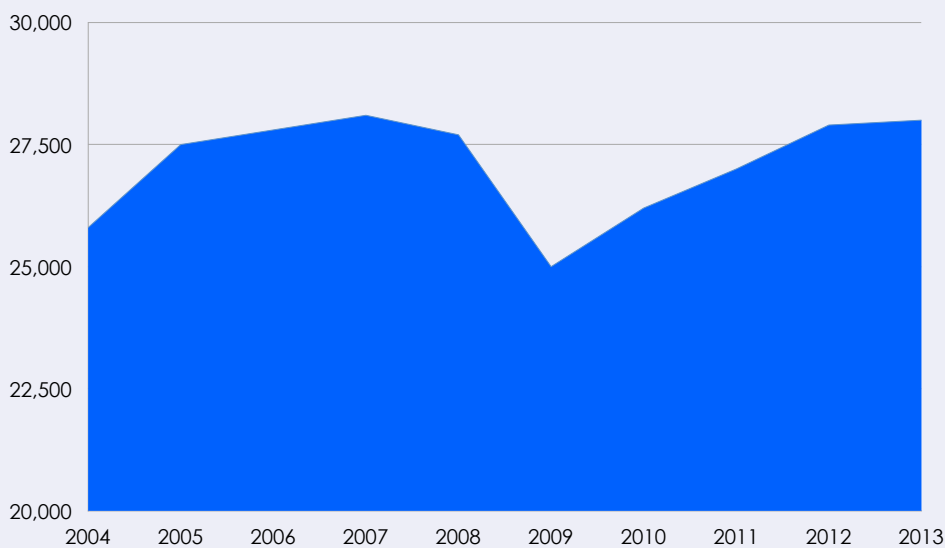
At the national level, it is concerning that no grand transportation infrastructure plan exists along with the mechanisms necessary to generate new resources. The federal government has historically demonstrated an obligation to plan and supply resources targeted specifically to address the need to construct, reconstruct and expand the national system of highways and other transportation infrastructure. Consistent, sustainable and long-term resource commitments and new funding mechanisms that grow as economic growth is achieved have become necessary.

An understandable and transparent transportation infrastructure investment strategy that is free from funding diversions and needless regulation is also paramount to ensure the public is being provided with measured results.

While far from perfect and certainly not finished, Oklahoma’s transportation system is improving due to a vision founded on providing opportunity, sustaining long-term and diversified economic growth and providing a better quality of life for citizens.

Oklahoma provides a strong example of transportation system improvements that can be accomplished when the public is informed and understands the critical needs of the infrastructure. And, of what is possible when business, government and private sector transportation partners work together with a focus, a plan and a common goal. Optimistically, these and other small successes will not go unnoticed.

Heavy Trucks Traveling the Turnpike System
12-Month Average Daily Traffic



Source: Oklahoma Turnpike Authority



Gross Receipts & General Revenue compared

The Treasurer's October 6 Gross Receipts to the Treasury report and the Office of Management and Enterprise Services' October 14 General Revenue Fund (GRF) report contain several differences.

September gross receipts totaled \$1.09 billion, while the GRF received \$561.1 million or 51.5% of the total.

The GRF received between 33.1% and 57.1% of monthly gross receipts during the past 12 months.

From September gross receipts, the GRF received:

- Personal income tax: 77.4%
- Corporate income tax: 42.2%
- Sales tax: 45%
- Gross production-Gas: 53%
- Gross production-Oil: None
- Motor vehicle tax: 29.9%
- Other sources: 45.9%

September GRF allocations exceed the estimate by \$28 million or 5.2%. Year-to-date collections are higher than the estimate by \$79 million or 6.1%.

For September, insurance premium taxes totaled \$49.5 million.

Tribal gaming fees generated \$11.21 million during the month.

September Gross Receipts to the Treasury climb by highest percentage in 17 months.

Revenue collections during September grew by more than 8 percent over

receipts from the same month of the prior year, the highest monthly growth rate since April of last year, State Treasurer Ken Miller announced as he released the September Gross Receipts to the Treasury report during a State Capitol news conference.

September gross receipts topped \$1 billion, and are more than \$80 million, or 8.2 percent, higher than collections

in September of last year. Gross receipts from the last 12 months pushed further

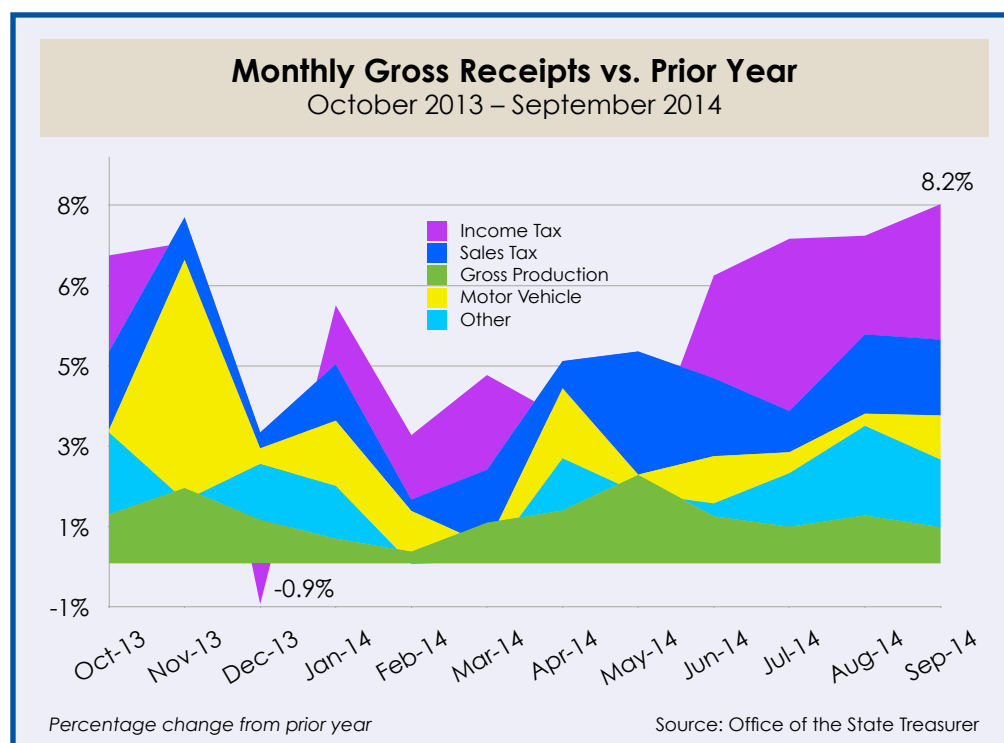
into record high territory, surpassing \$11.9 billion at a growth rate of more than 5 percent.

“As a measure of economic activity, September Gross Receipts to the Treasury indicate healthy expansion in Oklahoma,”

Miller said. “Any month where you see all major revenue categories in positive territory is a good one. Coupled with an expanding business conditions index

“Any month where you see all major revenue categories in positive territory in a good one.”

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Oklahoma unemployment holds steady in September

Oklahoma's preliminary, seasonally-adjusted unemployment rate was listed at 4.7 percent in September by the Oklahoma Employment Security Commission, unchanged from the prior month but down by nine-tenths of one percentage point from the prior year.

Compared to September 2013, the number of those listed as jobless dropped by 17,880 people, while statewide employment decreased by 20,520 jobs. The labor force shrank by 38,410 over the 12-month period.

The national unemployment rate was set at 5.9 percent in September.

State Unemployment Report

OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Sep '14	4.7%	1,781,270	1,697,930	83,340
Aug '14	4.7%	1,777,590	1,694,330	83,260
Jul '14	4.6%	1,783,350	1,701,070	82,280
Jun '14	4.5%	1,793,690	1,712,330	81,360
May '14	4.6%	1,807,070	1,724,170	82,910
Apr '14	4.6%	1,816,770	1,732,410	84,370
Sep '13	5.6%	1,819,680	1,718,450	101,220

* Data adjusted for seasonal factors

Source: OESC

Revenue

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and low unemployment, this month is nothing but good news.”

On the monthly measurement, all revenue streams show growth, ranging from more than 18 percent in motor vehicle taxes to almost 2 percent in

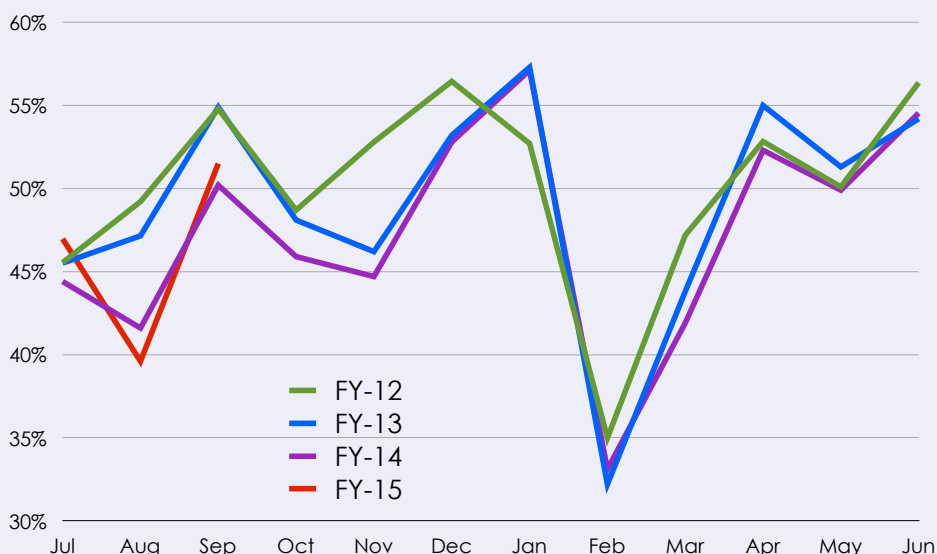
corporate income collections. The 12-month picture shows growth in all categories except for corporate income, which remains down by almost 11 percent from the prior 12-month period.

The two largest revenue categories, sales tax and gross income taxes, expanded by almost 5 percent and 8 percent respectively during the month. The gross production tax on oil and natural gas is up by almost 12 percent for the month and more than 16 percent for the 12 months.

About Gross Receipts to the Treasury

The Treasurer's Office issues the monthly Gross Receipts to the Treasury report to provide a timely and broad view of the state's economy. It is released in conjunction with the General Revenue Fund report from the Office of Management and Enterprise Services, which provides information to state agencies for budgetary purposes.

Percentage of Gross Receipts Allocated to General Revenue Fund



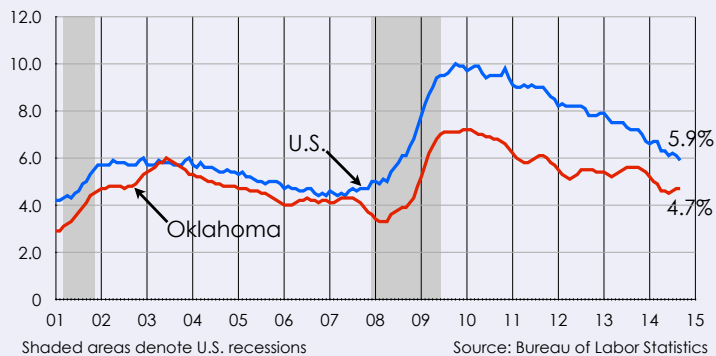
Source: Office of the State Treasurer



Economic Indicators

Unemployment Rate

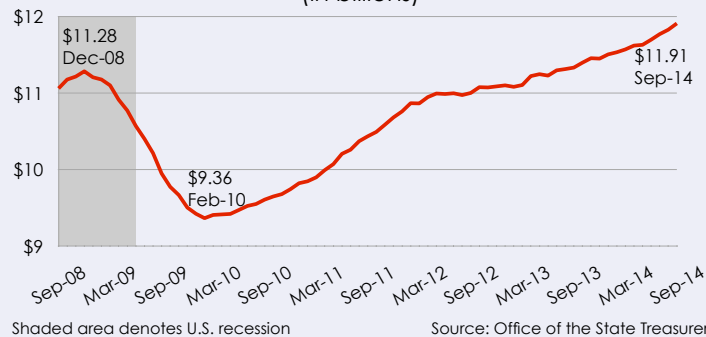
January 2001 – September 2014



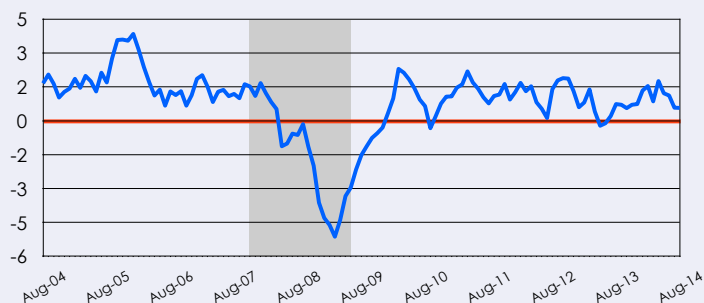
Oklahoma 12-Month Gross Receipts

September 2008 - September 2014

(in billions)



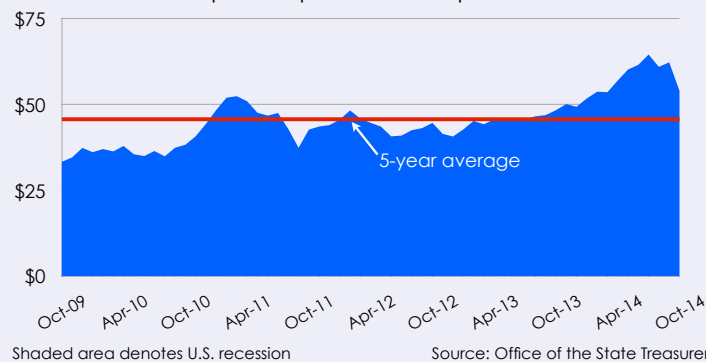
Leading Index for Oklahoma



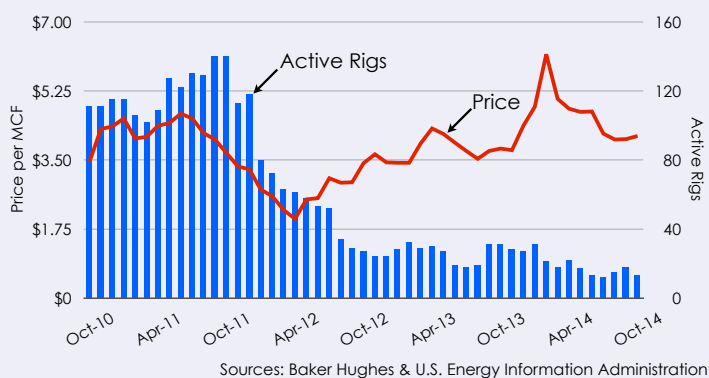
This graph predicts six-month growth by tracking leading indicators of the state economy including initial unemployment claims, interest rate spreads, manufacturing and earnings.

Oklahoma Stock Index

Top 25 capitalized companies



Oklahoma Natural Gas Prices & Active Rigs



Oklahoma Oil Prices & Active Rigs

